

E-111/GR-91-74 ORDER SETTING INTERIM RATES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
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Commissioner

In the Matter of the
Application of Dakota Electric
Association for Authority to
Increase its Rates for
Electric Service in the State
of Minnesota

ISSUE DATE: April 19, 1991

DOCKET NO. E-111/GR-91-74

ORDER SETTING INTERIM RATES

PROCEDURAL HISTORY

On February 21, 1991, Dakota Electric Association (Dakota) filed a petition seeking a general rate increase of \$4,002,777, or 6.03%. Along with the rate increase petition, Dakota filed a proposed interim rate schedule, to be effective April 22, 1991. The interim rate request, if allowed, would increase present retail revenues by 6%, or \$3,963,702.

The Company's proposed interim rates came before the Commission for consideration on April 16, 1991.

FINDINGS AND CONCLUSIONS

The Company Proposal

Dakota proposed an interim rate increase of \$3,963,702, representing a 6.00% increase in retail rates based on the following financial summary:

Rate Base	\$90,680,794
Rate of Return	<u>8.20%</u>
Required Operating Income	\$7,435,897
Net Operating Income	<u>3,433,120</u>
Revenue Deficiency	<u>\$ 4,002,777</u>

The Interim Rate Statute

Minn. Stat. § 216B.16, subd. 3 (1990) states in part as follows:

***** Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: **(1) a rate of return on common equity** for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; **(2) rate base or expense items** the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and **(3) no change in the existing rate design** *****

(1) Interim Rate of Return on Common Equity

The Company's Proposed Interim Rate of Return on Equity

In this current case, Dakota has requested a return on equity of 12.25% and an overall rate of return of 8.20% based on the following capital structure and cost rates for interim rates (and for final rates):

<u>Type of Capital</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	67.00%	6.20%	4.15%
Common Stock (Equity)	33.00%	12.25%	4.05%
Total	100.00%		8.20%

Most Recently Approved Rate of Return on Equity

In Dakota's most recent general rate case,¹ the Commission authorized a rate of return on equity of 12.82%, and an overall rate of return of 8.42%, based on the following capital structure and rates for the utility's cost of capital:

Long Term Debt	63.50%	5.89%	3.74%
Common Stock (Equity)	36.50%	12.82%	4.68%
Total	100.00%		8.42%

¹ In the Matter of the Petition of Dakota Electric Association for Authority to Change its Schedule of Rates and Charges, Docket No. E-111/GR-82-228, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER (April 29, 1983).

Exigent Circumstances Support Dakota's Proposed Interim Rate of Return on Common Stock

Dakota's proposed rate of return on common stock, 12.25%, is lower than the 12.82% approved in its most recent general rate case. Minnesota Stat. § 216B.16, subd. 3 requires that the interim rate of return on common equity equal the rate of return authorized in the last general rate proceeding, unless exigent circumstances exist. The Commission, for reasons stated below, finds that exigent circumstances exist and, therefore, will approve Dakota's proposal to lower the rate of return on common stock from 12.82% to 12.25% for purposes of calculating interim rates.

Minn. Stat. § 216B.16, subd. 3 was enacted in 1984, an inflationary time when utilities were requesting greatly increased returns on equity. The statute was meant to reduce the effects of these increases and to minimize overcollections by holding utilities to previous levels during the interim rate period.

In situations similar to this, the Commission has found exigent circumstances justifying use of a lower rate of return on common equity than was approved in the most recent rate case. For example, in In the Matter of the Application of Interstate Power Company for Authority to Increase its Rates for Electric Service in Minnesota, Docket No. E-001/GR-86-384, ORDER SETTING INTERIM RATES (August 28, 1986), the Commission stated at page 4.

The Commission concludes that it is reasonable to calculate interim rates using a return on equity different from that allowed in Interstate's most recent electric rate proceeding. To minimize the likely overcollection by the Company during the interim period and to fulfill the intent of the statute, immediate action to reduce interim rates is necessary. This is accomplished by using the lower rate of return on common equity ***** to calculate interim rates *****²

² More recently, the Commission has made similar findings of exigent circumstances justifying using a rate of return on common equity lower than the rate approved in the most recent rate case: In the Matter of the Application of Midwest Gas, a Division of Iowa Public Service Company, for Authority to Increase its Rates for Gas Service in the State of Minnesota, Docket No. G-010/GR-90-678, ORDER SETTING INTERIM RATES (November 9, 1990) and In the Matter of an Application of Interstate Power Company for Authority to Increase its Rates for Natural Gas Service in the State of Minnesota, Docket No. G-001/GR-90-700, ORDER SETTING INTERIM RATES (December 31, 1990).

In the present case, as in the cited cases, the utility has requested a lower return on equity than allowed in its last rate case. As in the cited cases, the fact that the Commission will likely approve a final rate of return on equity lower than that set in the last rate case presents a real danger that interim rates using the old rate of return would result in overcollection. The statutory goal of avoiding overcollection would best be served by allowing the lower interim rate. The Commission finds that these exigent circumstances justify an interim rate of return lower than that of the last general rate case and, therefore, will approve Dakota's proposed interim rate of return on common equity

(2) Rate Base and Expense Issues

Minn. Stat. § 216B.16, subd. 3 (1990) requires that the interim rate schedule be calculated using a **rate base or expense items** of the same "nature and kind" as those allowed in the utility's most recent rate proceeding. The most recent rate proceeding affecting Dakota was In the Matter of the Petition of Dakota Electric Association for Authority to Change its Schedule of Rates and Charges, Docket No. E-111/GR-82-228. The Commission issued its FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER in that matter on April 29, 1983. The rate base and expense items filed as the foundation for the currently proposed interim rates, therefore, must be compared with the rates and factors set in the April 29, 1983 Order to determine if they are of the same nature and kind.

Rate Base

In its interim rate filing, Dakota proposed a rate base of \$90,680,794. The rate base approved in the last general rate case was \$40,128,193. Although the rate base currently proposed is more than double the rate base used in the Company's previous rate case, the items included in the proposed rate base are the same as those approved in Dakota's last rate case. Therefore, the Commission will approve the rate base proposed by the Company for purposes of interim rates.

Income and Expense Items

In its current rate case filing, Dakota has included several components of operating income that were not approved in the Company's most recent rate case. Dakota included Chamber of Commerce dues of \$3,930 in its test year expenses. It also included in its test year expenses 100% of its charitable contributions totalling \$3,930, rather than 50% of those contributions, the limit set by Minn. Stat. § 216B.16, subd.9 (1990). The potential adjustment to the revenue deficiency due to the incorrect inclusion of these items, however, is less than

Dakota's rounding reduction of \$39,075.³ Therefore, the Commission will accept Dakota's proposed interim rate increase of \$3,963,702.⁴

(3) Interim Rate Design

The interim rates statute, Minn. Stat. § 216B.16, subd. 3 requires that interim rates represent no change from the existing rate design. In this case, Dakota has proposed to collect its interim rate increase equally from all classes by applying a surcharge of 6% to each retail rate schedule. Such a proposal is equitable and complies with the statutory directive not to change the rate structure. The Commission, therefore, will approve Dakota's proposed interim rate design.

Commission Action

To summarize, the Commission accepts Dakota's proposed rate base, capital structure, return on common equity, and interim increase allocation method (rate design). Based on these findings and conclusions, the Commission further finds that Dakota's proposed interim rate schedule is properly calculated pursuant to Minn. Stat. § 216B.16 (1990). The Commission, therefore, will authorize Dakota to implement its proposed interim revenue increase of \$3,963,702, or 6% of revenues, effective April 22, 1991.

Additional Requirements

Dakota will file interim tariff sheets with the Commission and the Department within 7 days of this Order. Interim rates are collected subject to refund. Minn. Stat. § 216B.16, subd. 3 (1990). In the event the interim rate level exceeds the final rate level allowed in the general rate case, the Commission's

³ The rounding reduction (\$39,075) is the difference between Dakota's projected revenue deficiency (\$4,002,777) and the projected revenue based on the interim rates (\$3,963,702).

⁴ Dakota's interim rates filing also proposes that rate case expenses connected with this filing (estimated at \$40,000) be amortized over a two year period with the first year's amount, \$20,000, included in the test year Administrative and General expenses. Although rate case expenses were not an issue in Dakota's most recent rate case and the costs of filing the last rate case were charged to expense as incurred, the Commission views the proposed handling of rate case expenses for interim rates as being the same in nature and kind as previously allowed. Therefore, while the issue of the appropriate amortization period will be deferred to the rate case proceedings, the placement of \$20,000 in the test year is approved.

final order in this matter will direct Dakota to refund any overcollected funds within 120 days of the date of the Commission's final order in this matter. To be prepared for such an eventuality, Dakota will keep such records of sales and collections under interim rates as are necessary to compute and execute any such refund.

ORDER

1. Dakota Electric Association (Dakota) is authorized to collect \$3,963,702 in additional annual revenues, an increase of 6% above retail revenues under current rates. The interim rate schedule will be effective on April 22, 1991.
2. Within seven days of the date of this Order, Dakota shall file with the Commission and the Department of Public Service interim tariff sheets and supporting documentation reflecting the decisions herein.
3. Dakota shall keep such records of sales and collections under interim rates as will be necessary to compute a potential refund. Any refund shall be made within 120 days of the effective date of the Commission's final Order in a manner approved by the Commission.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)